

FINANCIAL AUDIT  
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT  
OF THE

DEPARTMENT OF CORRECTIONS

October 1, 1997 through September 30, 1999

## EXECUTIVE DIGEST

# DEPARTMENT OF CORRECTIONS

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### INTRODUCTION

This report contains the results of our financial audit\*, including the provisions of the Single Audit Act, of the Department of Corrections (DOC) for the period October 1, 1997 through September 30, 1999.

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### AUDIT PURPOSE

This financial audit of DOC was conducted as part of the constitutional responsibility of the Office of the Auditor General and is required on a biennial basis by Act 251, P.A. 1986, to satisfy the requirements of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

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### BACKGROUND

DOC was created by the Executive Organization Act of 1965 (Act 380, P.A. 1965). DOC's director is appointed by the Governor and serves as the chief administrative officer. DOC's mission\* is to enhance public safety by carrying out the sentences given to convicted adult felons in a humane, cost-effective manner consistent with correctional principles and constitutional standards.

DOC is functionally divided into the Executive Bureau, Administration and Programs Administration, Field Operations Administration, and Correctional Facilities Administration. Responsibilities related to federal grant

\* See glossary at end of report for definition.

management are shared by the Bureau of Fiscal Management, within Administration and Programs Administration, and the units administering the federal grants. The Bureau of Fiscal Management administers DOC's budget and financial transactions.

DOC's annual expenditures and operating transfers out, excluding the Correctional Industries Revolving Fund and DOC's Miscellaneous Trust Accounts Fund, totaled approximately \$1.4 billion for fiscal year 1998-99. As of September 30, 1999, DOC had 17,002 employees.

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AUDIT OBJECTIVES  
AND CONCLUSIONS

**Audit Objective:** To audit DOC's financial schedules, including the schedule of expenditures of federal awards, for the fiscal years ended September 30, 1999 and September 30, 1998.

**Conclusion:** We expressed an unqualified opinion\* on DOC's financial schedules. In addition, we expressed an unqualified opinion on DOC's supplemental financial schedules, including the schedule of expenditures of federal awards, in relation to the financial schedules taken as a whole.

**Audit Objective:** To assess and report on DOC's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial schedules, and on its internal control\* over financial reporting, based on our audit of the financial schedules.

**Conclusion:** Our assessment of compliance did not disclose any instances of noncompliance that could

\* See glossary at end of report for definition.

**have a direct and material effect on the financial schedules. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses\*. However, we noted reportable conditions\* related to encumbrances and expenditure classification (Findings 1 and 2).**

**In addition, our assessment indicated that DOC was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.**

**Audit Objective:** To assess and report on DOC's compliance with requirements applicable to each major federal program and on its internal control over compliance in accordance with OMB Circular A-133.

**Conclusion: Our assessment of compliance applicable to each major federal program disclosed instances of noncompliance that are required to be reported under OMB Circular A-133.** These related to expenditure classification, the Adult Education - State Grant Program budget and federal awards, federal payroll costs, the Child Nutrition Cluster, federal reporting, meal counts, and subrecipient\* monitoring (Findings 3 through 9). **Also, our assessment of internal control over**

\* See glossary at end of report for definition.

**compliance applicable to each major federal program identified four material weaknesses:**

- DOC did not properly classify all federal program expenditures as required by the Common Rule\* when administering the Adult Education - State Grant Program and the Title I Program for Neglected and Delinquent Children (Finding 3).

DOC informed us that it agrees and has taken steps to comply with the related recommendation.

- DOC did not expend Adult Education - State Grant Program federal awards in accordance with the categorical budgets approved by the Michigan Department of Education (Finding 4).

DOC informed us that it agrees and has complied with the related recommendation.

- DOC did not properly document payroll costs charged to four of its federal programs (Finding 5).

DOC informed us that it agrees and has complied with the related recommendation.

- DOC did not record federal awards expended for the School Breakfast Program or the National School Lunch Program separately in the Michigan Administrative Information Network. DOC recorded all federal awards expended for the Child Nutrition Cluster as purchases and services only from NSLP federal awards. As a result, DOC could not reconcile

\* See glossary at end of report for definition.

its financial schedules to the schedule of expenditures of federal awards. (Finding 6)

DOC informed us that it agrees and has complied with the related recommendation.

We also identified other reportable conditions related to federal reporting, meal counts, and subrecipient monitoring (Findings 7 through 9).

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AUDIT SCOPE

Our audit scope was to examine the financial and other records of the Department of Corrections for the period October 1, 1997 through September 30, 1999. Our audit was conducted in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

This audit does not include the Correctional Industries Revolving Fund or DOC's Miscellaneous Trust Accounts Fund, which we audit separately.

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AGENCY RESPONSES  
AND PRIOR AUDIT  
FOLLOW-UP

Our audit report contains 8 findings and 9 corresponding recommendations. DOC's corrective action plan indicates that it agrees with 7 of the findings, partially agrees with 1 of the findings, and has complied with or plans to implement all of the recommendations.

As disclosed in DOC's summary schedule of prior audit findings, DOC fully corrected 2 of the 5 prior Single Audit\* findings. The remaining 3 findings are addressed in this report (Findings 2, 3, and 7).

\* See glossary at end of report for definition

October 27, 2000

Mr. Bill Martin, Director  
Department of Corrections  
Grandview Plaza  
Lansing, Michigan

Dear Mr. Martin:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Corrections for the period October 1, 1997 through September 30, 1999.

This report contains our executive digest; description of agency; audit objectives and conclusions, audit scope, and agency responses and prior audit follow-up; schedule of findings and questioned costs; and independent auditor's reports on the financial schedules, on compliance and on internal control over financial reporting, and on compliance with requirements applicable to each major program and on internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133. This report also contains the Department of Corrections financial schedules and notes to the financial schedules, supplemental financial schedules, other required schedules, and a glossary of acronyms and terms.

Our findings and recommendations are organized by audit objective. The agency preliminary responses are contained in the corrective action plan. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Thomas H. McTavish, C.P.A.  
Auditor General



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## Description of Agency

The Department of Corrections (DOC) was created by the Executive Organization Act of 1965 (Act 380, P.A. 1965). DOC's director is appointed by the Governor and serves as the chief administrative officer. DOC's mission is to enhance public safety by carrying out the sentences given to convicted adult felons in a humane, cost-effective manner consistent with correctional principles and constitutional standards. The following describes the four organizational units that operate and control the various activities within DOC:

1. The Executive Bureau, headed by the executive assistant to the director, supervises the Office of Policy and Hearings and the Public Information and Communications Section and coordinates DOC's legislative liaison activities. The Office of Audit and Internal Affairs performs internal audits and provides local jail and detention facility inspection services.
2. Administration and Programs Administration is responsible for overseeing health care, prison industries, and prisoner programs and for providing DOC's general administrative support services:
  - a. The Bureau of Health Care Services coordinates and administers DOC's physical, dental, and mental health programs.
  - b. The Bureau of Correctional Industries operates manufacturing plants, service programs, and farm operations.
  - c. The Office of Program Services administers DOC's education and substance abuse activities.
  - d. The Bureau of Fiscal Management administers DOC's budget and financial transactions.
  - e. The Office of Planning, Research, and Management Information Services engages in planning and research and evaluation and administers the data processing systems.

3. Field Operations Administration is responsible for adult felony probation services and parole supervision:
  - a. The Office of Field Programs administers DOC's activities related to parole violation, interstate compacts, and community residence and electronic monitoring (tether) programs.
  - b. The Office of Parole Board determines parole eligibility, releases prisoners on parole, and returns violators of parole conditions to prison. The Board's members are appointed by the director.
4. Correctional Facilities Administration administers and operates all State-owned prisons and camps, except for the Office of Special Alternative Incarceration and the Community Corrections Centers.

Responsibilities related to federal grant management are shared by the Bureau of Fiscal Management and the units administering the federal grants.

DOC's annual expenditures and operating transfers out, excluding the Correctional Industries Revolving Fund and DOC's Miscellaneous Trust Accounts Fund, totaled approximately \$1.4 billion for fiscal year 1998-99. As of September 30, 1999, DOC had 17,002 employees.

Audit Objectives and Conclusions, Audit Scope,  
and Agency Responses and Prior Audit Follow-Up

Audit Objectives and Conclusions

Our financial audit, including the provisions of the Single Audit Act, of the Department of Corrections (DOC) had the following objectives:

1. To audit DOC's financial schedules, including the schedule of expenditures of federal awards, for the fiscal years ended September 30, 1999 and September 30, 1998.

**We expressed an unqualified opinion on DOC's financial schedules. In addition, we expressed an unqualified opinion on DOC's supplemental financial schedules, including the schedule of expenditures of federal awards, in relation to the financial schedules taken as a whole.**

2. To assess and report on DOC's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial schedules, and on its internal control over financial reporting, based on our audit of the financial schedules.

**Our assessment of compliance did not disclose any instances of noncompliance that could have a direct and material effect on the financial schedules. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses.** However, we noted reportable conditions related to encumbrances and expenditure classification (Findings 1 and 2).

**In addition, our assessment indicated that DOC was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.**

The findings related to our assessment of compliance and internal control over financial reporting are contained in Section II of the schedule of findings and questioned costs\* .

3. To assess and report on DOC's compliance with requirements applicable to each major federal program and on its internal control over compliance in accordance with U.S. Office of Management and Budget (OMB) Circular A-133.

**Our assessment of compliance applicable to each major federal program disclosed instances of noncompliance that are required to be reported under OMB Circular A-133.** These related to expenditure classification, the Adult Education - State Grant Program budget and federal awards, federal payroll costs, the Child Nutrition Cluster, federal reporting, meal counts, and subrecipient monitoring (Findings 3 through 9). **Also, our assessment of internal control over compliance applicable to each major federal program identified four material weaknesses related to expenditure classification, the Adult Education - State Grant Program budget and federal awards, federal payroll costs, and the Child Nutrition Cluster (Findings 3 through 6).** We also identified other reportable conditions related to federal reporting, meal counts, and subrecipient monitoring (Findings 7 through 9).

The findings related to our assessment of compliance and internal control over compliance applicable to each major federal program are contained in Section III of the schedule of findings and questioned costs.

#### Audit Scope

Our audit scope was to examine the financial and other records of the Department of Corrections for the period October 1, 1997 through September 30, 1999. Our audit was conducted in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

\* See glossary at end of report for definition

This audit does not include the Correctional Industries Revolving Fund or DOC's Miscellaneous Trust Accounts Fund, which we audit separately.

We considered DOC's internal control over compliance applicable to each major federal program and assessed DOC's compliance with federal laws and regulations in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, in addition to generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. In addition, we followed up on DOC's summary schedule of prior audit findings. DOC's major federal programs are identified in Section I of the schedule of findings and questioned costs.

#### Agency Responses and Prior Audit Follow-Up

Our audit report contains 8 findings and 9 corresponding recommendations. DOC's corrective action plan indicates that it agrees with 7 of the findings, partially agrees with 1 of the findings, and has complied with or plans to implement all of the recommendations.

DOC's corrective action plan, which is included in this report, was prepared by the DOC as required by OMB Circular A-133. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require DOC to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

As disclosed in DOC's summary schedule of prior audit findings, DOC fully corrected 2 of the 5 prior Single Audit findings. The remaining 3 findings are addressed in this report (Findings 2, 3, and 7).



# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## Section I: Summary of Auditor's Results

### Financial Schedules

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified? No

Reportable conditions identified that are not considered to be material weaknesses? Yes

Noncompliance material to the financial schedules? No

### Federal Awards

Internal control over major programs:

Material weaknesses identified? Yes

Reportable conditions identified that are not considered to be material weaknesses? Yes

Type of auditor's report issued on compliance for major programs:

Unqualified for all major programs except for the Adult Education - State Grant Program, Title I Program for Neglected and Delinquent Children, and Child Nutrition Cluster, which are qualified\* .

Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, Section 510(a)? Yes

\* See glossary at end of report for definition

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
10.553 and 10.555	Child Nutrition Cluster
16.579	Byrne Formula Grant Program
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants
16.593	Residential Substance Abuse Treatment for State Prisoners
84.002	Adult Education - State Grant Program
84.013	Title I Program for Neglected and Delinquent Children

Dollar threshold used to distinguish between type A and type B programs: \$866,052

Auditee qualified as a low-risk auditee\* ? No

## **Section II: Findings Related to the Financial Schedules**

### **FINDING (470001)**

#### **1. Encumbrances**

The Department of Corrections (DOC) did not establish encumbrances at fiscal year-end in accordance with Department of Management and Budget (DMB) criteria.

DOC establishes encumbrances at fiscal year-end for commitments related to unperformed contracts for goods and services. In order for a contract to qualify as

\* See glossary at end of report for definition.

an encumbrance, DMB Administrative Guide procedure 1210.27 requires that all contracting parties must sign and date the contract prior to September 16 of the fiscal year and that the contract must represent a legal obligation of the State to pay a specific sum. Also, the DMB procedure allows for contracts between State departments to qualify for encumbrance carry-forward if the contract meets the preceding criteria.

Our review disclosed that DOC did not always have qualifying contracts to support encumbrances:

- a. DOC established encumbrances totaling \$2,051,802 and \$254,031 in fiscal years 1998-99 and 1997-98, respectively, based on contracts with other State departments that were not signed and/or dated or did not obligate the State for a specific sum prior to September 16.

DOC established these encumbrances based on annual memorandums of understanding with DMB's Office of Design and Construction. The memorandums included estimates of funding needed to complete miscellaneous operating projects\* at various correctional facilities. The intent of the memorandums was for the Office to contract with vendors to provide services for the projects. The Office's contracting with vendors would satisfy the DMB encumbrance criteria to legally obligate the State to pay a specified sum. However, DOC did not ensure that all contracting parties signed and/or dated the memorandums or that the Office entered into vendor contracts for the encumbrances established prior to September 16.

DMB's Office of Financial Management informed DOC that the use and receipt (prior to September 16) of the memorandum fulfills the contract and date requirements to qualify as an encumbrance. The Office of Financial Management considers contracting with vendors irrelevant.

- b. DOC established a fiscal year 1998-99 encumbrance totaling \$453,000 based on a contract that was not signed and dated prior to September 16, 1999.

\* See glossary at end of report for definition.

DOC's compliance with DMB encumbrance criteria would ensure that DOC appropriately carries forward spending authority and that financial reporting is accurate.

### **RECOMMENDATION**

We recommend that DOC establish encumbrances at fiscal year-end in accordance with DMB criteria.

### **FINDING (470002)**

2. **Expenditure Classification**

This finding is included in Section III of the schedule of findings and questioned costs (470003).

**The status of the findings reported in the prior Single Audit is disclosed in the summary schedule of prior audit findings.**

## **Section III: Findings and Questioned Costs Related to Federal Awards**

### **FINDING (470003)**

3. **Expenditure Classification**

U.S. Department of Education	CFDA: 84.002 Adult Education - State Grant Program
Award Number: 1199/99076 1198/98137	Award Period: 10/1/98 - 9/30/99 10/1/97 - 9/30/98
Pass-Through From the Michigan Department of Education	Questioned Costs: \$164,227

U.S. Department of Education	CFDA: 84.013 Title I Program for Neglected and Delinquent Children
Award Number: 1669/9493 1667/8493	Award Period: 10/1/98 - 9/30/99 10/1/97 - 9/30/98
Pass-Through From the Michigan Department of Education	Questioned Costs: (\$18,485)

DOC did not properly classify all federal program expenditures as required by the Common Rule when administering the Adult Education - State Grant Program and the Title I Program for Neglected and Delinquent Children (Title I Program).

Title 34, Part 80 of the *Code of Federal Regulations (CFR)*, also known as the Common Rule, provides uniform fiscal and administrative requirements for the management of U.S. Department of Education grants and cooperative agreements. These requirements include provisions for the procurement of program goods and services and the determination of allowable federal program costs.

The Common Rule requires that grantees follow the same procurement policies and procedures for goods and services purchased with federal funds as for goods and services purchased with nonfederal funds. DOC established and used agency object codes as its primary coding structure for identifying and classifying goods purchased or services obtained. Also, DOC must identify federal expenditures by the classification of goods purchased or services obtained for federal grant budgeting and financial reporting purposes to help ensure that program costs were an allowable use of federal grant funds.

Our review of federal program expenditure transactions disclosed:

- a. DOC classified Adult Education - State Grant Program expenditures totaling \$164,227 for data processing installation and maintenance services, data processing equipment and software, and license/certification fees as educational supplies and materials.

- b. DOC classified a transfer of expenditures totaling \$29,134 from the Title I Program to the Adult Education - State Grant Program. The original expenditures were classified as data processing hardware and software purchases, equipment maintenance services, and other fees and compensation. However, when DOC transferred the expenditures to the Adult Education - State Grant Program, it classified the entire amount as other fees and compensation.
- c. DOC classified a Title I Program expenditure totaling \$10,650 for data processing installation services as educational materials and supplies.

DOC's improper coding of Adult Education - State Grant Program and Title I Program purchases contributed to the inaccuracy of its final expenditure reports to the Michigan Department of Education as described in Finding 7. We considered this internal control weakness and the resulting noncompliance with procurement procedures to be material to DOC's Adult Education - State Grant Program.

DOC's noncompliance with the Common Rule provides the federal grantor agencies with justification for disallowing program expenditures and for rejecting DOC's subsequent requests for federal funds.

We noted this same condition in our prior audit. DOC responded in its summary schedule of prior audit findings that it had partially corrected the condition by providing employee training in the proper use of object codes.

DOC has shown improvement in its classification of expenditures. Our audit disclosed only two transactions that were improperly coded during fiscal year 1998-99.

## **RECOMMENDATION**

WE AGAIN RECOMMEND THAT DOC PROPERLY CLASSIFY ALL FEDERAL PROGRAM EXPENDITURES AS REQUIRED BY THE COMMON RULE WHEN ADMINISTERING THE ADULT EDUCATION - STATE GRANT PROGRAM AND THE TITLE I PROGRAM.

## **FINDING (470004)**

### **4. Adult Education - State Grant Program Budget and Federal Awards**

U.S. Department of Education	CFDA: 84.002 Adult Education - State Grant Program
Award Number: 1199/99076 1198/98137 1197/98137	Award Period: 10/1/98 - 9/30/99 10/1/97 - 9/30/98 10/1/97 - 9/30/98
Pass-Through From the Michigan Department of Education	Questioned Costs: \$374,923

DOC did not expend Adult Education - State Grant Program federal awards in accordance with the categorical budgets approved by the Michigan Department of Education. Also, DOC did not accurately report its expenditures to the Department.

The Department provides Adult Education - State Grant Program federal awards to DOC based on the approval of an award proposal submitted by DOC. The Department requires DOC to provide a categorical budget of how the federal awards will be used, including a narrative description of the budget as it relates to DOC's program objectives in this award proposal. The Department's approval of DOC's award proposal provides the basis for DOC's approved use of Adult Education - State Grant Program federal awards.

The Department provided DOC the flexibility to transfer amounts between the budget categories per federal regulation 34 *CFR* 74.25(f). This regulation allows for transfers between budget categories as long as the cumulative amount of the transfers does not exceed 10% of the total budget as last approved by the Department. The Department accepts DOC's final expenditure report as documentation of any budget revisions caused by category transfers. However, the Department requires DOC to submit a revised budget for approval if the cumulative budget transfers exceed 10% of the total budget.

Our audit procedures disclosed that Adult Education - State Grant Program expenditures exceeded the cumulative 10% budget transfer limitation. DOC neither submitted revised budgets to the Department nor accurately reported the category amounts to the Department in its final expenditure reports.

DOC expended federal awards totaling \$178,018 and \$196,905 for fiscal years 1998-99 and 1997-98, respectively, on goods and services not approved by the Department. Also, DOC did not accurately report amounts expended to the Department:

Fiscal Year 1998-99					
Use of Funds	Amount Budgeted	Amount Expended	Amount Reported	Amount Expended Over	Amount Reported Over (Under)
				Amount Budgeted	Amount Expended
Salaries and benefits	\$ 15,000	\$ 43,167	\$ 43,167	\$ 28,167	\$ 0
Supplies and materials	450,000	365,061	856,833	N/A	491,772
Other expenditures	1,000	27,751		26,751	(27,751)
Equipment	434,000	340,921		N/A	(340,921)
Purchased services		123,100		123,100	(123,100)
Total	<u>\$900,000</u>	<u>\$900,000</u>	<u>\$900,000</u>	<u>\$178,018</u>	<u>\$ 0</u>

  

Fiscal Year 1997-98					
Use of Funds	Amount Budgeted	Amount Expended	Amount Reported	Amount Expended Over	Amount Reported Over (Under)
				Amount Budgeted	Amount Expended
Salaries and benefits	\$ 10,000	\$ 855	\$ 254	\$ N/A	\$ (601)
Supplies and materials	892,400	694,518	990,733	N/A	296,215
Other expenditures		106,037		106,037	(106,037)
Equipment	96,000	185,847		89,847	(185,847)
Purchased services		1,021		1,021	(1,021)
Total	<u>\$998,400</u>	<u>\$988,278</u>	<u>\$990,987</u>	<u>\$196,905</u>	<u>\$ 2,709</u>

We considered this internal control weakness and the resulting noncompliance with activities allowed or unallowed to be material to DOC's Adult Education - State Grant Program.

Expending Adult Education - State Grant Program federal awards on goods and services not approved in the budget provides the Department with justification for rejecting DOC's requests for subsequent grant awards.



## **RECOMMENDATIONS**

We recommend that DOC expend Adult Education - State Grant Program federal awards in accordance with the categorical budgets approved by the Michigan Department of Education.

We also recommend that DOC accurately report its expenditures to the Department.

## **FINDING (470005)**

### **5. Federal Payroll Costs**

U.S. Department of Justice	CFDA: 16.579 Byrne Formula Grant Program
Award Number: 70672-4K98 70672-3K97	Award Period: 10/1/98 - 9/30/99 10/1/97 - 9/30/98
Pass-Through From the Department of Community Health	Questioned Costs: \$32,427

U.S. Department of Justice	CFDA: 16.593 Residential Substance Abuse Treatment for State Prisoners
Award Number: 90001-2S97	Award Period: 10/1/98 - 9/30/99
Pass-Through From the Department of Community Health	Questioned Costs: \$27,639

U.S. Department of Education	CFDA: 84.002 Adult Education - State Grant Program
Award Number: 1199/99076	Award Period: 10/1/98 - 9/30/99
Pass-Through From the Michigan Department of Education	Questioned Costs: \$20,249

U.S. Department of Education	CFDA: 84.013 Title I Program for Neglected and Delinquent Children
Award Number: 1668/9493 1669/9493 1667/8493 1668/8493	Award Period: 10/1/98 - 9/30/99 10/1/98 - 9/30/99 10/1/97 - 9/30/98 10/1/97 - 9/30/98
Pass-Through From the Michigan Department of Education	Questioned Costs: \$624,851

DOC did not properly document payroll costs charged to four of its federal programs.

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment B, requires that payroll costs for each employee who is charged 100% to a single grant program or cost objective be supported by at least a semiannual certification that the employee worked solely on that program. OMB Circular A-87 requires that the certification be signed by the employee or the supervisory official having first-hand knowledge of the work performed by the employee. Also, OMB Circular A-87 requires that payroll charges for each employee who worked less than 100% on a federal program be supported by personal activity reports that account for the employee's total activity, including time worked on the federal program. OMB Circular A-87 requires that personal activity reports be prepared at least monthly.

Our review of payroll registers and accounting records for employees charged to four federal programs disclosed:

- a. DOC did not prepare certifications for employees whose payroll cost distributions were charged 100% to the Byrne Formula Grant Program, the Residential Substance Abuse Treatment for State Prisoners Program, and the Title I Program. DOC informed us that it was not aware of this federal requirement for semiannual certifications. We considered this internal control weakness and the resulting noncompliance with federal cost principles to be material to DOC's Title I Program.

- b. DOC did not require an Adult Education - State Grant Program employee charged to multiple activities to prepare personal activity reports documenting the employee's time worked on the Adult Education - State Grant Program until April of fiscal year 1998-99. The employee did prepare the personal activity reports for April through September 1999.

Noncompliance with OMB Circular A-87, Attachment B, could result in disallowed costs.

### **RECOMMENDATION**

We recommend that DOC properly document payroll costs charged to its federal programs.

### **FINDING (470006)**

#### **6. Child Nutrition Cluster**

U.S. Department of Agriculture	Child Nutrition Cluster: CFDA: 10.553 School Breakfast Program CFDA: 10.555 National School Lunch Program
Award Number: 330008008 330008008 330008008	Award Period: 7/1/99 - 6/30/00 7/1/98 - 6/30/99 7/1/97 - 6/30/98
Pass-Through From the Michigan Department of Education	Questioned Costs: \$0

DOC did not record federal awards expended for the School Breakfast Program (SBP) and the National School Lunch Program (NSLP) separately in the Michigan Administrative Information Network\* (MAIN). DOC recorded all federal awards expended for the Child Nutrition Cluster as purchases and services only from NSLP federal awards. As a result, DOC could not reconcile its financial schedules with the schedule of expenditures of federal awards (SEFA).

\* See glossary at end of report for definition.

DOC received federal awards for both SBP and NSLP from the Michigan Department of Education. The grant agreement between DOC and the Department clearly stipulated that SBP and NSLP were separate federal programs. The OMB Circular A-133 Compliance Supplement designates SBP and NSLP as a cluster of programs\* entitled the Child Nutrition Cluster.

OMB Circular A-133 and Section 18.1461 of the *Michigan Compiled Laws* require DOC to prepare a SEFA and have it included in DOC's Single Audit report. The SEFA reports the total federal awards expended by DOC for each federal program by federal grantor agency. For federal programs included in a cluster of programs, DOC must report federal awards expended for the individual federal programs within the cluster. Also, OMB Circular A-133 requires DOC to identify within its accounting records the individual federal programs. In addition, the federal awards expended that are reported in the SEFA must reconcile with amounts in the detailed accounting records.

DOC prepared its SEFA, reporting federal awards expended separately for SBP and NSLP under the Child Nutrition Cluster. However, DOC could not reconcile these amounts reported in the SEFA with MAIN. DOC informed us that, in its SEFA, it reported an allocation of federal awards expended, based on the federal reimbursement received for breakfasts and lunches served. We determined that the allocation was reasonable.

We considered this internal control weakness and the resulting noncompliance with OMB Circular A-133 to be material to DOC's Child Nutrition Cluster.

## **RECOMMENDATION**

We recommend that DOC record federal awards expended for SBP and NSLP separately in MAIN.

\* See glossary at end of report for definition.

## **FINDING (470007)**

### **7. Federal Reporting**

U.S. Department of Justice	CFDA: 16.579 Byrne Formula Grant Program
Award Number: 70672-4K98 70672-3K97	Award Period: 10/1/98 - 9/30/99 10/1/97 - 9/30/98
Pass-Through From the Department of Community Health	Questioned Costs: \$0

U.S. Department of Justice	CFDA: 16.593 Residential Substance Abuse Treatment for State Prisoners
Award Number: 90001-2S97 90001-1S96	Award Period: 10/1/98 - 9/30/99 1/1/97 - 12/31/97
Pass-Through From the Department of Community Health	Questioned Costs: \$0

U.S. Department of Education	CFDA: 84.002 Adult Education - State Grant Program
Award Number: 1198/98137 1197/97090	Award Period: 10/1/97 - 9/30/98 10/1/96 - 9/30/97
Pass-Through From the Michigan Department of Education	Questioned Costs: \$0

U.S. Department of Education	CFDA: 84.013 Title I Program for Neglected and Delinquent Children
Award Number: 1669/9493 1667/7493	Award Period: 10/1/98 - 9/30/99 10/1/96 - 9/30/97
Pass-Through From the Michigan Department of Education	Questioned Costs: \$0

DOC's internal control did not ensure that required federal financial and program activity reports were submitted in compliance with applicable federal law and grant award requirements. As a result, DOC submitted untimely and inaccurate federal financial and program reports for 4 of its 6 major federal programs.

Federal regulations and/or grant agreements for most federal programs require the periodic preparation and submission of activity reports, such as monthly financial reports, quarterly program reports, and final program performance and expenditure reports. Our review of DOC's compliance with federal grant reporting requirements disclosed:

- a. DOC did not submit timely federal financial and program performance reports to the Department of Community Health for the Byrne Formula Grant Program for fiscal years 1998-99 and 1997-98. DOC submitted 8 (80%) of 10 monthly financial reports we reviewed from 2 to 35 days late. Also, DOC submitted 2 (50%) of 4 quarterly program reports from 6 to 16 days late.
- b. DOC did not submit timely federal financial reports to the Department of Community Health for the Residential Substance Abuse Treatment for State Prisoners Program for fiscal years 1998-99 and 1997-98. DOC submitted 7 (54%) of 13 monthly financial reports from 2 to 5 days late.
- c. DOC did not submit accurate final expenditure reports to the Michigan Department of Education for the Adult Education - State Grant Program. DOC underreported its Adult Education - State Grant Program expenditures by \$3,735 and \$408,844 in its reports for fiscal years 1998-99 and 1997-98, respectively. Also, DOC did not accurately classify and report federal program expenditures made in these reports, as described in Findings 3 and 4.
- d. DOC did not submit accurate final expenditure reports to the Michigan Department of Education for the Title I Program. DOC underreported its Title I Program expenditures by \$11,386 in DOC's report for fiscal year 1997-98. Also, DOC did not accurately classify and report federal program expenditures made in DOC's reports for fiscal years 1998-99 and 1997-98, as described in Finding 3.

DOC's noncompliance with federal reporting requirements provides federal grantor agencies with justification for rejecting DOC's requests for subsequent grant awards. Timely and accurately reporting facilitates the federal grantor agencies' monitoring of DOC's federal grant expenditures.

We reported this condition in our prior audit. DOC responded in its summary schedule of prior audit findings that it had partially corrected the condition by reassigning the preparation of federal financial reports for two programs to another area. Also, DOC has stressed to the individuals responsible for the preparation of the reports the importance of timely completion. Further, the employees have been instructed to inform their supervisors of the date of completion of all reports.

## **RECOMMENDATION**

WE AGAIN RECOMMEND THAT DOC IMPROVE ITS INTERNAL CONTROL TO HELP ENSURE THAT REQUIRED FEDERAL FINANCIAL AND PROGRAM ACTIVITY REPORTS ARE SUBMITTED IN COMPLIANCE WITH APPLICABLE FEDERAL LAW AND GRANT AWARD REQUIREMENTS.

## **FINDING (470008)**

### **8. Meal Counts**

U.S. Department of Agriculture	Child Nutrition Cluster: <i>CFDA</i> : 10.553 School Breakfast Program <i>CFDA</i> : 10.555 National School Lunch Program
Award Number: 330008008 330008008 330008008	Award Period: 7/1/99 - 6/30/00 7/1/98 - 6/30/99 7/1/97 - 6/30/98
Pass-Through From the Michigan Department of Education	Questioned Costs: \$1,588

DOC's internal control did not ensure that reimbursement claims for SBP and NSLP accurately reflected the number of meals served to eligible prisoners.

The Michigan Department of Education subgrants SBP and NSLP federal awards to DOC based on the number of breakfasts and lunches served to prisoners under the age of 21 and enrolled in a secondary education program. DOC receives these federal awards based on monthly reimbursement claims that report the number of breakfasts and lunches served to eligible prisoners. Federal regulations 7 *CFR* 210.8 and 7 *CFR* 220.11 require that DOC establish internal controls that ensure the

accuracy of breakfast and lunch counts prior to the submission of the monthly reimbursement claims.

We reviewed 10 monthly reimbursement claims submitted to the Michigan Department of Education from 4 facilities. These reimbursement claims, which included 41,566 breakfasts and 43,986 lunches, disclosed the reporting of inaccurate and ineligible meals counts. We noted:

- a. One facility requested SBP reimbursement for 594 meals for prisoners who were not under 21 years of age. Also, reimbursement claims for 2 of the 4 facilities overreported 29 and underreported 201 breakfasts served.
- b. One facility requested NSLP reimbursement for 783 meals for prisoners who were not under 21 years of age. Also, reimbursement claims for 2 of the 4 facilities overreported 36 and underreported 201 lunches served.

As a result, we estimated that DOC inappropriately received a net amount of \$18,090 in federal awards.

DOC informed us that it relied on the correctional facilities participating in SBP and NSLP to establish policies and procedures for reporting accurate and eligible breakfast and lunch counts. DOC standardized policies and procedures would help ensure that breakfast and lunch counts are accurate and only for eligible prisoners.

## **RECOMMENDATION**

We recommend that DOC strengthen its internal control to help ensure that reimbursement claims for SBP and NSLP accurately reflect the number of meals served to eligible prisoners.



## **FINDING (470009)**

### **9. Subrecipient Monitoring**

U.S. Department of Justice	CFDA: 16.586 Violent Offender Incarceration and Truth in Sentencing Incentive Grants
Award Number: 96-CV-VX-0026	Award Period: 9/30/96 - 9/29/04
	Questioned Costs: \$0

DOC did not establish a comprehensive subrecipient monitoring process to ensure that the Violent Offender Incarceration and Truth in Sentencing (VOI-TIS) Incentive Grants federal awards provided to its subrecipient were expended in accordance with applicable laws, regulations, and provisions of contracts or grants.

DOC is responsible to the federal agency for the federal awards it provides to its subrecipient. The Single Audit Act Amendments of 1996 and OMB Circular A-133 require DOC to identify federal awards to its subrecipient, advise its subrecipient of federal and grant requirements imposed on it, ensure that the subrecipient has met the necessary Single Audit requirements, and monitor the activities of its subrecipient to ensure that the subrecipient uses federal awards in compliance with applicable laws, regulations, and provisions of contracts or grants. This can be accomplished through formalized grant agreements with the subrecipient, site visits, Single Audits or limited scope audits, or reviews of documentation supporting requests for reimbursement.

DOC provided approximately \$8 million in VOI-TIS federal awards to its subrecipient in fiscal years 1998-99 and 1997-98. Our review of DOC's subrecipient monitoring process disclosed:

- a. DOC did not enter into a grant agreement with its subrecipient.

A grant agreement between DOC and the subrecipient would properly identify the federal awards provided to the subrecipient and the use of the federal awards and advise the subrecipient of federal and grant requirements imposed on it. The Office of Justice Programs Financial Guide required DOC to formalize, in a contract or other written agreement, the subaward of VOI-TIS federal funds to its

subrecipient. The contract or agreement must include, at a minimum, the activities to be performed, the time schedule, project policies, flow-through requirements applicable to the subrecipient, dollar limitations, cost principles, and other policies and procedures.

DOC informed us that it provided the subrecipient with its grant agreement with the federal agency. However, this grant agreement did not contain some of the required federal award information, such as the *CFDA* number and the requirements imposed on DOC by federal laws and regulations. As a result, DOC could not ensure that federal awards provided to its subrecipient were administrated in accordance with federal regulations.

- b. DOC did not adequately monitor the activities of its subrecipient. DOC did receive documentation supporting the subrecipient's request for reimbursement. However, DOC did not use any other means to monitor its subrecipient's activities, such as site visits and limited scope audits.

The subrecipient used some of its federal awards for prison construction and remodeling projects. DOC's Physical Plant Unit periodically performed prison construction site visits. However, DOC did not document whether the program administrator obtained and reviewed the site visit documentation. Reviewing the documentation of the site visits would provide DOC with reasonable assurance that the subrecipient used federal awards only for allowable activities.

A Single Audit or limited scope audit had not been completed for the federal awards expended during our audit period.

DOC's noncompliance could result in a State liability for any expended federal awards and could result in the federal agency withholding or suspending future subrecipient federal awards.

## **RECOMMENDATION**

We recommend that DOC establish a comprehensive subrecipient monitoring process to help ensure that VOI-TIS federal awards provided to its subrecipient are

expended in accordance with applicable laws, regulations, and provisions of contracts or grants.

**The status of the findings reported in the prior Single Audit is disclosed in the summary schedule of prior audit findings.**

Independent Auditor's Report on  
the Financial Schedules

July 21, 2000

Mr. Bill Martin, Director  
Department of Corrections  
Grandview Plaza  
Lansing, Michigan

Dear Mr. Martin:

We have audited the accompanying schedule of General Fund revenue and operating transfers and the schedule of sources and disposition of General Fund authorizations of the Department of Corrections for the fiscal years ended September 30, 1999 and September 30, 1998. These financial schedules are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial schedules based on our audit. The financial transactions of the Department are accounted for principally in the General Fund of the State of Michigan.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1b, the accompanying financial schedules include only the revenue and operating transfers and the sources and disposition of authorizations for the Department of Correction's General Fund accounts, presented on the modified accrual basis of accounting. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either the Department or the State's General Fund in accordance with generally accepted accounting principles.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenue and operating transfers and the sources and disposition of authorizations of the Department of Corrections for the fiscal years ended September 30, 1999 and September 30, 1998 on the basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 21, 2000 on our tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting.

The accompanying schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the other supplemental financial schedules, consisting of the schedules of sources and disposition of General Fund authorizations by appropriation unit, are presented for purposes of additional analysis and are not a required part of the Department's financial schedules referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial schedules and, in our opinion, is fairly stated, in all material respects, in relation to the financial schedules taken as a whole.

Sincerely,

Thomas H. McTavish, C.P.A.  
Auditor General

Independent Auditor's Report on Compliance and  
on Internal Control Over Financial Reporting

July 21, 2000

Mr. Bill Martin, Director  
Department of Corrections  
Grandview Plaza  
Lansing, Michigan

Dear Mr. Martin:

We have audited the General Fund financial schedules of the Department of Corrections for the fiscal years ended September 30, 1999 and September 30, 1998 and have issued our report thereon dated July 21, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Department's financial schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts.

However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over

financial reporting that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 1 and 2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that neither of the reportable conditions described in the previous paragraph is a material weakness.

This report is intended solely for the information and use of the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Thomas H. McTavish, C.P.A.  
Auditor General

Independent Auditor's Report on Compliance With  
Requirements Applicable to Each Major Program  
and on Internal Control Over Compliance in  
Accordance With OMB Circular A-133

July 21, 2000

Mr. Bill Martin, Director  
Department of Corrections  
Grandview Plaza  
Lansing, Michigan

Dear Mr. Martin:

Compliance

We have audited the compliance of the Department of Corrections with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each major federal program for the fiscal years ended September 30, 1999 and September 30, 1998. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each major federal program is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in the previous paragraph that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the



circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Department's compliance with those requirements.

As described in Findings 3 through 6 in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding procurement procedures, activities allowed or unallowed, allowable costs/costs principles, and reporting that are applicable to the Adult Education - State Grant Program, the Title I Program for Neglected and Delinquent Children, and the Child Nutrition Cluster. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the previous paragraph, the Department of Corrections complied, in all material respects, with the requirements referred to in the third previous paragraph that are applicable to each major federal program for the fiscal years ended September 30, 1999 and September 30, 1998. The results of our auditing procedures also disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 7 through 9.

#### Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Department's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 3 through 9.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that

would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described in the previous paragraph, we consider Findings 3 through 6 to be material weaknesses.

This report is intended solely for the information and use of the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Thomas H. McTavish, C.P.A.  
Auditor General

**DEPARTMENT OF CORRECTIONS**  
**Schedule of General Fund Revenue and Operating Transfers**  
**Fiscal Years Ended September 30**

REVENUE	<u>1999</u>	<u>1998</u>
Federal agencies (Note 3)	\$ 14,849,057	\$ 6,134,800
Local agencies	344,546	365,287
Services:		
Resident stores	2,650,700	2,614,147
Public Works Program reimbursements	594,231	545,848
Other	66,156	203,737
Miscellaneous:		
Telephone fees and commissions	12,569,600	14,999,395
Oversight fees	7,577,389	4,396,483
Tether Program contributions	4,563,639	3,996,931
Community Residential Program fees	3,410,099	2,550,000
Other	<u>1,355,069</u>	<u>4,496,367</u>
Total Revenue	<u>\$ 47,980,485</u>	<u>\$ 40,302,995</u>
OPERATING TRANSFERS		
From Correctional Industries Revolving Fund	<u>\$ 93,500</u>	<u>\$ 93,500</u>
Total Operating Transfers	<u>\$ 93,500</u>	<u>\$ 93,500</u>
Total Revenue and Operating Transfers	<u><u>\$ 48,073,985</u></u>	<u><u>\$ 40,396,495</u></u>

The accompanying notes are an integral part of the financial schedules.

**DEPARTMENT OF CORRECTIONS**  
**Schedule of Sources and Disposition of General Fund Authorizations**  
**Fiscal Years Ended September 30**

SOURCES OF AUTHORIZATIONS (Note 2)	<u>1999</u>	<u>1998</u>
General purpose appropriations	\$ 1,368,557,100	\$ 1,330,269,400
Balances carried forward	66,800,659	19,675,913
Restricted financing sources	49,290,296	38,519,812
Less: Intrafund expenditure reimbursements	<u>(2,288,201)</u>	<u>(2,541,074)</u>
Total	<u><u>\$ 1,482,359,854</u></u>	<u><u>\$ 1,385,924,050</u></u>
 DISPOSITION OF AUTHORIZATIONS (Note 2)		
Gross expenditures and operating transfers	\$ 1,424,563,657	\$ 1,306,654,823
Less: Intrafund expenditure reimbursements	<u>(2,288,201)</u>	<u>(2,541,074)</u>
Net expenditures and operating transfers	<u>\$ 1,422,275,456</u>	<u>\$ 1,304,113,749</u>
Balances carried forward:		
Multi-year projects	\$ 38,928,016	\$ 45,899,214
Encumbrances	16,768,119	18,035,139
Restricted revenue - not authorized	<u>2,665,543</u>	<u>2,866,306</u>
Total balances carried forward	<u>\$ 58,361,678</u>	<u>\$ 66,800,659</u>
Balances lapsed	\$ 1,722,720	\$ 15,017,602
Overexpended	<u>(7,960)</u>	<u>(7,960)</u>
Total	<u><u>\$ 1,482,359,854</u></u>	<u><u>\$ 1,385,924,050</u></u>

The accompanying notes are an integral part of the financial schedules.

## Notes to the Financial Schedules

### Note 1 Significant Accounting Policies

#### a. Reporting Entity

The accompanying financial schedules report the results of the financial transactions of the Department of Corrections (DOC) for the fiscal years ended September 30, 1999 and September 30, 1998. The financial transactions of DOC are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*. The financial schedules do not include the financial activities of the Correctional Industries Revolving Fund and DOC's Miscellaneous Trust Accounts Fund, which are audited separately and do not receive any federal financial assistance.

The notes accompanying these financial schedules relate directly to DOC. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies, Budgeting and Budgetary Control, Pension Benefits and Other Postemployment Benefits, Compensated Absences, Leases, and Interfund Receivables and Payables.

#### b. Basis of Accounting and Presentation

The financial schedules contained in this report are prepared on the modified accrual basis of accounting, as provided by generally accepted accounting principles for governmental funds. The modified accrual basis of accounting, which emphasizes the measurement of current financial resource flows, is explained in more detail in the *SOMCAFR*.

The accompanying financial schedules include only the revenue and operating transfers and the sources and disposition of authorizations for DOC's General Fund accounts. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either DOC or the State's General Fund in accordance with generally accepted accounting principles.

Note 2 Schedule of Sources and Disposition of General Fund Authorizations

The various elements of the schedule of sources and disposition of General Fund authorizations are defined as follows:

- a. General purpose appropriations: Original appropriation and any supplemental appropriations that are financed by General Fund/general purpose revenue.
- b. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenue - authorized, and restricted revenue - not authorized that were not spent as of the end of the prior fiscal year. These authorizations are available for expenditure in the current fiscal year for the purpose of the carry-forward without additional legislative authorization, except for the restricted revenue - not authorized. Carried forward authorizations, available for expenditure in fiscal year 1997-98, were \$99,172 less than the carried forward authorizations from fiscal year 1996-97. The reduction was related to fiscal year 1995-96 encumbrances that could not be liquidated by DOC. The Department of Management and Budget liquidated these encumbrances after the close of fiscal year 1996-97, resulting in reduced spending authority for DOC in fiscal year 1997-98.
- c. Restricted financing sources: Collections of restricted revenue, restricted operating transfers, and restricted intrafund expenditure reimbursements to finance department programs as detailed in the appropriations act. These financing sources are authorized for expenditure up to the amount appropriated. Depending upon program statute, any amounts received in excess of the appropriation are, at year-end, either converted to general purpose financing sources and made available for general appropriation in the next fiscal year or carried forward to the next fiscal year as either restricted revenue - authorized or restricted revenue - not authorized.
- d. Intrafund expenditure reimbursements: Funding from intradepartmental grant revenues appropriated to finance DOC operations. DOC collected

\$2,288,201 and \$2,484,571 to finance its food service and print shop operations in fiscal years 1998-99 and 1997-98, respectively.

- e. Multi-year projects: Unexpended authorizations for work projects and capital outlay projects that are carried forward to subsequent fiscal years for the completion of the projects. DOC carried forward approximately \$25 million and \$31 million of unexpended appropriated funds for leased beds and alternatives to leased beds in fiscal years 1998-99 and 1997-98, respectively. The work projects provided authorization for the custody, treatment, clinical, transportation, and administrative costs associated with the housing of prisoners during periods of facility overcrowding.
- f. Encumbrances: Authorizations carried forward to finance payments for goods or services ordered in the old fiscal year but not received by fiscal year-end. These authorizations are generally limited to obligations funded by general purpose appropriations.
- g. Restricted revenue - not authorized: Revenue that, by statute, is restricted for use to a particular department program or activity. However, the expenditure of the restricted revenue is subject to annual legislative appropriation.
- h. Balances lapsed: DOC authorizations that were unexpended or unobligated at the end of the fiscal year. These amounts are available for legislative appropriation in the subsequent fiscal year.
- i. Overexpended: The total of DOC's overexpenditure of line-item authorizations. DOC overexpended its authorizations for fiscal year 1997-98 by \$7,960. DOC's overexpenditures were the result of an accounting system error that would not allow for the liquidation of encumbrances improperly obligated in fiscal years 1995-96 and 1994-95. The accounting system error was corrected in fiscal year 1998-99.

Note 3 Nonfinancial Assistance

Federal nonfinancial assistance of surplus food in the amount of approximately \$58,145 and \$415,132 for fiscal years 1998-99 and 1997-98, respectively, is not included in federal revenue amounts. The nonfinancial assistance reflects the value assigned by the federal government.



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# SUPPLEMENTAL FINANCIAL SCHEDULES

**DEPARTMENT OF CORRECTIONS**  
Schedule of Sources and Disposition of General Fund Authorizations by Appropriation Unit  
Fiscal Year Ended September 30, 1999

Appropriation Unit	Sources of Authorizations				
	General Purpose Appropriations	Budgetary Transfers In (Out)	Balances Carried Forward	Restricted Financing Sources	Total
Central Administration					
Executive	\$ 7,950,200	\$ (122,000)	\$ 22,129	\$	\$ 7,850,329
Administration and Programs	20,359,000	3,451,800	1,820,849	1,653,759	27,285,408
Central Support Accounts	17,538,600	388,200	849,104	1,600,000	20,375,904
Training, Community and Substance Abuse Programs	30,450,900	1,374,500	7,358,831	2,878,177	42,062,408
Consent Decrees	99,405,500	(38,690,700)	734,156		61,448,956
Office of Health Care	39,169,900	(390,000)	1,960,925	73,364	40,814,189
Clinical Operations	67,459,400	3,568,300	716,480		71,744,180
Office of Community Corrections	31,156,300	(2,612,800)	7,754,285	16,109,700	52,407,485
Field Operations	91,192,500	1,635,000	3,373,763	7,577,389	103,778,652
Special Alternative Incarceration Program	8,902,500	(501,400)	100,900	89,706	8,591,706
Community Placement	34,450,100	(40,000)	1,155,054	8,227,840	43,792,994
Correctional Facilities - Administration	45,589,600	1,357,000	31,494,940	2,635,651	81,077,191
Subtotal for Central Administration	<u>\$ 493,624,500</u>	<u>\$ (30,582,100)</u>	<u>\$ 57,341,415</u>	<u>\$ 40,845,586</u>	<u>\$ 561,229,401</u>
Facility Operations					
Alger Maximum Correctional Facility - Munising	\$ 21,193,900	\$ (575,000)	\$ 33,407	\$ 14,913	\$ 20,667,219
Baraga Maximum Correctional Facility - Baraga	21,979,300	10,000	272,323	18,507	22,280,130
E.C. Brooks Correctional Facility - Muskegon	37,670,000	(682,600)	365,628	160,438	37,513,466
Carson City Correctional Facility Complex - Carson City	38,096,500	(100,000)	538,462	106,904	38,641,866
Chippewa Correctional Facility - Kincheloe	35,831,600	900,000	359,346	168,531	37,259,477
Cooper Street Correctional Facility - Jackson	14,190,600	(138,000)	158,410	45,912	14,256,923
G. Robert Cotton Regional Correctional Facility - Jackson	29,293,300	(700,000)	415,947	126,580	29,135,828
Florence Crane Correctional Facility - Coldwater	14,708,500	727,500	44,948	57,581	15,538,530
Charles E. Egeler Correctional Facility - Jackson	18,561,900	12,320,600	55,379	238,717	31,176,595
Richard A. Handlon Michigan Training Unit - Ionia	20,114,200	665,000	136,609	82,704	20,998,513
Gus Harrison Correctional Facility - Adrian	37,358,300	(78,100)	53,224	203,369	37,536,793
Huron Valley Correctional Facility - Ypsilanti	19,628,500	3,697,600	710,532	48,069	24,084,701
Ionia Maximum Correctional Facility - Ionia	22,681,500	342,000	15,923	14,111	23,053,534
Ionia Temporary Facility - Ionia	15,990,800	(705,000)	322,675	438,982	16,047,457
Jackson Maximum Correctional Facility - Jackson	26,783,900	(2,783,200)	166,490	2,387,731	26,554,920
Kinross Correctional Facility - Kincheloe	38,387,000	163,500	318,427	160,882	39,029,810
Lakeland Correctional Facility - Coldwater	19,853,700	43,000	333,625	57,792	20,288,117
Macomb Correctional Facility - New Haven	21,482,900	350,000	10,596	102,366	21,945,862
Marquette Branch Prison - Marquette	31,014,700	313,000	781,216	153,010	32,261,926
Michigan Reformatory - Ionia	29,836,700	2,300,000	858,300	154,717	33,149,717
Mid-Michigan Correctional Facility - St. Louis	16,080,200		207,629	65,417	16,353,245
Mound Correctional Facility - Detroit	21,205,000	655,000	74,326	87,306	22,021,632
Muskegon Correctional Facility - Muskegon	23,299,000	(417,000)	308,620	80,855	23,271,475
Newberry Correctional Facility - Newberry	20,250,100	232,000	67,674	55,649	20,605,423
Oaks Maximum Correctional Facility - Eastlake	24,217,700	1,232,000	31,275	13,806	25,494,781
Parnall Correctional Facility - Jackson	20,760,100	(259,300)	5,658	115,510	20,621,967
Riverside Correctional Facility - Ionia	24,330,000	8,826,700	1,668,134	51,138	34,875,972
Ryan Correctional Facility - Detroit	22,923,800	565,000	160,360	99,075	23,748,236

*This schedule continued on next page.*

Disposition of Authorizations						
Expenditures and Operating Transfers Out	Multi-Year Projects	Encumbrances	Restricted Revenue - Not Authorized	Balances Lapsed	Overexpended	Total
\$ 7,832,531		\$ 17,063	\$	\$ 734	\$	\$ 7,850,329
26,222,516	500,000	468,069		94,824		27,285,408
19,415,810		887,146		72,948		20,375,904
32,302,325	7,565,684	2,031,608		162,791		42,062,408
60,704,383		617,895		126,679		61,448,956
40,101,736		705,189		7,264		40,814,189
70,934,839		647,333		162,008		71,744,180
45,393,142	5,701,949	1,108,631		203,763		52,407,485
100,856,019		160,783	2,662,531	99,318		103,778,652
8,245,133		341,743		4,830		8,591,706
43,116,077		623,631		53,286		43,792,994
55,685,399	25,029,701	276,812		85,279		81,077,191
\$ 510,809,909	\$38,797,334	\$ 7,885,904	\$ 2,662,531	\$ 1,073,723	\$ 0	\$ 561,229,401
\$ 20,640,984		\$ 8,188	\$	\$ 18,048	\$	\$ 20,667,219
22,176,262		96,167		7,701		22,280,130
37,414,681		80,397		18,388		37,513,466
38,051,242		569,225		21,399		38,641,866
36,945,645		301,025		12,807		37,259,477
14,005,806		226,178		24,938		14,256,923
28,720,661		391,072		24,094		29,135,828
15,399,404		127,366		11,760		15,538,530
31,110,180		33,910		32,506		31,176,595
20,780,004	32,813	172,075		13,621		20,998,513
37,488,077		20,769		27,947		37,536,793
23,292,244		779,375		13,082		24,084,701
23,020,010		21,062		12,461		23,053,534
15,852,429	6,457	174,929		13,641		16,047,457
26,380,843		136,481	3,012	34,585		26,554,920
38,684,754		333,458		11,598		39,029,810
20,060,806		212,099		15,213		20,288,117
21,930,575		1,596		13,692		21,945,862
31,336,468		918,463		6,995		32,261,926
32,283,152	37,765	820,694		8,106		33,149,717
16,154,092		188,761		10,393		16,353,245
21,883,005		110,395		28,232		22,021,632
23,069,422	1,839	185,834		14,380		23,271,475
20,214,651		376,701		14,071		20,605,423
25,076,938		413,050		4,794		25,494,781
20,520,418		68,654		32,896		20,621,967
33,865,781	51,808	938,971		19,411		34,875,972
23,718,462		19,651		10,123		23,748,236

DEPARTMENT OF CORRECTIONS  
Schedule of Sources and Disposition of General Fund Authorizations by Appropriation Unit  
Fiscal Year Ended September 30, 1999  
*Continued*

Appropriation Unit	Sources of Authorizations				
	General Purpose Appropriations	Budgetary Transfers In (Out)	Balances Carried Forward	Restricted Financing Sources	Total
Saginaw Correctional Facility - Freeland	\$ 23,790,400	\$ (472,700)	\$ 1,846	\$ 96,789	\$ 23,416,335
Scott Correctional Facility - Plymouth	22,867,100	37,100	300,499	103,896	23,308,595
Southern Michigan Correctional Facility - Jackson	20,368,200	910,000	13,010	57,184	21,348,395
Standish Maximum Correctional Facility - Standish	20,280,300	903,500		13,893	21,197,693
State Prison of Southern Michigan - Jackson		3,730,000	140,669		3,870,669
Thumb Correctional Facility - Lapeer	19,311,100	123,000	259,383	57,113	19,750,595
Western Wayne Correctional Facility - Plymouth	20,154,100	773,000	25,195	100,686	21,052,981
Youth Correctional Facility - Baldwin	725,700	(330,000)		2,210,095	2,605,795
Corrections Camps	57,851,500	(136,000)	243,498	494,480	58,453,479
Inmate Housing Fund	1,860,500	(1,860,500)			
Subtotal for Facility Operations	<u>\$ 874,932,600</u>	<u>\$ 30,582,100</u>	<u>\$ 9,459,244</u>	<u>\$ 8,444,710</u>	<u>\$ 923,418,654</u>
Intrafund Expenditure Reimbursements	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ (2,288,201)</u>	<u>\$ (2,288,201)</u>
Total	<u>\$ 1,368,557,100</u>	<u>\$ 0</u>	<u>\$ 66,800,659</u>	<u>\$ 47,002,095</u>	<u>\$ 1,482,359,854</u>

Disposition of Authorizations						
Expenditures and Operating Transfers Out	Multi-Year Projects	Encumbrances	Restricted Revenue - Not Authorized	Balances Lapsed	Overexpended	Total
\$ 23,407,880	\$	\$	\$	\$ 8,455	\$	\$ 23,416,335
23,055,993		232,758		19,844		23,308,595
21,312,289		17,666		18,440		21,348,395
21,177,962				19,732		21,197,693
3,727,471		140,669		2,529		3,870,669
19,509,111		215,162		26,323		19,750,595
21,002,578		39,809		10,593		21,052,981
2,579,008		13		26,775		2,605,795
57,904,461		509,593		39,425		58,453,479
<u>\$ 913,753,748</u>	<u>\$ 130,682</u>	<u>\$ 8,882,215</u>	<u>\$ 3,012</u>	<u>\$ 648,997</u>	<u>\$ 0</u>	<u>\$ 923,418,654</u>
<u>\$ (2,288,201)</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ (2,288,201)</u>
<u>\$1,422,275,456</u>	<u>\$38,928,016</u>	<u>\$ 16,768,119</u>	<u>\$ 2,665,543</u>	<u>\$ 1,722,720</u>	<u>\$ 0</u>	<u>\$ 1,482,359,854</u>

**DEPARTMENT OF CORRECTIONS**  
Schedule of Sources and Disposition of General Fund Authorizations by Appropriation Unit  
Fiscal Year Ended September 30, 1998

Appropriation Unit	Sources of Authorizations				
	General Purpose Appropriations	Budgetary Transfers In (Out)	Balances Carried Forward	Restricted Financing Sources	Total
Central Administration					
Executive	\$ 7,983,400	\$ (444,348)	\$ 72,621	\$	\$ 7,611,674
Retirement Savings	(3,725,500)	3,725,500			0
Administration and Programs	20,093,400	4,018,300	74,093	2,131,115	26,316,908
Central Support Accounts	16,194,300	1,935,000	695,058		18,824,358
Training, Community and Substance Abuse Programs	23,908,400	5,214,300	6,638,268	1,429,592	37,190,560
Consent Decrees	100,627,800	(38,542,200)	267,120		62,352,720
Office of Health Care	43,012,700	(3,856,300)	27,955	56,503	39,240,858
Clinical Operations	67,239,300	1,288,000	234,860		68,762,160
Office of Community Corrections	32,760,700	3,452,100	3,043,684	14,999,395	54,255,879
Field Operations	92,441,800	(2,684,000)	2,483,932	4,396,483	96,638,215
Special Alternative Incarceration Program	8,895,200	(556,800)	161,440	81,728	8,581,568
Community Placement	34,537,300	853,248	550,050	6,907,553	42,848,151
Correctional Facilities - Administration	42,797,700	6,902,000	304,748	2,867,569	52,872,016
Subtotal for Central Administration	<u>\$ 486,766,500</u>	<u>\$ (18,695,200)</u>	<u>\$ 14,553,827</u>	<u>\$ 32,869,937</u>	<u>\$ 515,495,065</u>
Facility Operations					
Alger Maximum Correctional Facility - Munising	\$ 19,988,500	\$ (659,300)	\$ 4,186	\$ 13,829	\$ 19,347,215
Baraga Maximum Correctional Facility - Baraga	22,716,200	(2,578,200)	70,658	18,566	20,227,223
E.C. Brooks Correctional Facility - Muskegon	37,743,100	(2,047,700)	440,991	158,418	36,294,809
Carson City Correctional Facility Complex - Carson City	38,452,500	(1,668,700)	401,549	106,621	37,291,970
Chippewa Correctional Facility - Kincheloe	35,861,600	(1,129,700)	393,211	164,041	35,289,151
Cooper Street Correctional Facility - Jackson	14,401,800	(721,000)		45,286	13,726,086
G. Robert Cotton Regional Correctional Facility - Jackson	28,786,400	(470,000)	412,441	118,190	28,847,031
Florence Crane Correctional Facility - Coldwater	14,398,300	(249,100)	41,137	59,495	14,249,832
Charles E. Egeler Correctional Facility - Jackson	18,627,900	10,690,300	22,947	100,097	29,441,244
Richard A. Handlon Michigan Training Unit - Ionia	19,558,200	647,400	46,588	84,810	20,336,998
Gus Harrison Correctional Facility - Adrian	35,973,400	(1,004,700)	68,793	199,532	35,237,025
Huron Valley Correctional Facility - Ypsilanti	19,171,800	3,163,000	171,905	48,634	22,555,339
Ionia Maximum Correctional Facility - Ionia	21,867,100	80,000	35,641	16,011	21,998,752
Ionia Temporary Facility - Ionia	15,450,800	(640,000)	322,894	380,984	15,514,678
Jackson Maximum Correctional Facility - Jackson	26,470,200	(1,586,900)		1,951,699	26,834,999
Kinross Correctional Facility - Kincheloe	37,279,300	(639,700)	24,053	159,115	36,822,767
Lakeland Correctional Facility - Coldwater	19,402,400	(592,600)	456,421	55,108	19,321,329
Macomb Correctional Facility - New Haven	20,679,100	237,600	112,244	106,776	21,135,720
Marquette Branch Prison - Marquette	26,801,000	2,885,500	21,296	150,973	29,858,769
Michigan Reformatory - Ionia	27,851,300	3,153,000	189,130	151,622	31,345,052
Mid-Michigan Correctional Facility - St. Louis	15,523,900	(375,000)	51,816	62,706	15,263,422
Mound Correctional Facility - Detroit	20,473,200	917,900	16,443	41,771	21,449,314
Muskegon Correctional Facility - Muskegon	20,892,200	661,200	63,868	84,865	21,702,132
Newberry Correctional Facility - Newberry	18,185,900	676,900	94,216	52,762	19,009,777
Oaks Maximum Correctional Facility - Eastlake	23,444,400	(390,000)	18,298	13,312	23,086,010
Parnall Correctional Facility - Jackson	20,037,700	(525,000)		114,272	19,626,972
Riverside Correctional Facility - Ionia	23,781,700	8,087,500	643,155	51,541	32,563,897

*This schedule continued on next page.*

Disposition of Authorizations						
Expenditures and Operating Transfers Out	Multi-Year Projects	Encumbrances	Restricted Revenue - Not Authorized	Balances Lapsed	Overexpended	Total
\$ 7,574,579	\$	\$ 22,129	\$	\$ 14,966	\$	\$ 7,611,674
						0
24,460,686	1,500,000	320,849		40,374	(5,000)	26,316,908
17,757,177		849,104		218,077		18,824,358
29,500,726	6,434,452	924,379		331,003		37,190,560
60,266,213		734,156		1,352,350		62,352,720
35,025,253		1,960,925		2,254,679		39,240,858
67,532,171		716,480		513,509		68,762,160
44,718,575	6,899,562	854,723		1,783,019		54,255,879
93,031,910		685,914	2,687,849	232,542		96,638,215
8,374,970		100,900		105,697		8,581,568
41,550,912		1,155,054		142,184		42,848,151
21,056,404	31,065,200	251,283	178,457	320,673		52,872,016
<u>\$ 450,849,577</u>	<u>\$ 45,899,214</u>	<u>\$ 8,575,896</u>	<u>\$ 2,866,306</u>	<u>\$ 7,309,072</u>	<u>\$ (5,000)</u>	<u>\$ 515,495,065</u>
\$ 19,163,569	\$	\$ 33,407	\$	\$ 150,240	\$	\$ 19,347,215
19,950,528		272,323		4,372		20,227,223
35,815,113		365,628		114,067		36,294,809
36,210,237		538,462		543,270		37,291,970
34,544,884		359,346		384,921		35,289,151
13,041,666		158,410		526,009		13,726,086
27,745,555		415,947		685,529		28,847,031
13,993,580		44,948		211,304		14,249,832
29,208,597		55,379		177,269		29,441,244
19,973,783		136,609		226,606		20,336,998
35,079,860		53,224		103,940		35,237,025
21,634,568		710,532		210,239		22,555,339
21,901,901		15,923		80,927		21,998,752
15,077,382		322,675		114,621		15,514,678
26,402,757		166,490		265,752		26,834,999
36,363,851		318,427		140,489		36,822,767
18,878,259		333,625		109,445		19,321,329
21,003,514		10,596		121,750	(140)	21,135,720
28,994,857		781,216		82,696		29,858,769
30,389,331		858,300		97,422		31,345,052
14,967,073		207,629		88,719		15,263,422
21,198,395		74,326		176,593		21,449,314
21,361,264		308,620		32,248		21,702,132
18,863,370		67,674		81,554	(2,820)	19,009,777
22,872,915		31,275		181,820		23,086,010
19,564,383		5,658		56,930		19,626,972
30,709,814		1,668,134		185,948		32,563,897



DEPARTMENT OF CORRECTIONS  
Schedule of Sources and Disposition of General Fund Authorizations by Appropriation Unit  
Fiscal Year Ended September 30, 1998  
*Continued*

Appropriation Unit	Sources of Authorizations				
	General Purpose Appropriations	Budgetary Transfers In (Out)	Balances Carried Forward	Restricted Financing Sources	Total
Ryan Correctional Facility - Detroit	\$ 22,306,100	\$ 184,600	\$ 22,421	\$ 101,173	\$ 22,614,294
Saginaw Correctional Facility - Freeland	22,996,400	(1,188,800)	763	97,810	21,906,173
Scott Correctional Facility - Plymouth	22,307,800	(268,000)	46,931	105,284	22,192,015
Southern Michigan Correctional Facility - Jackson	21,553,500	(2,000,000)	158,551	212,241	19,924,292
Standish Maximum Correctional Facility - Standish	19,748,100	294,300	3,093	12,067	20,057,559
State Prison of Southern Michigan - Jackson		3,190,000	368,405		3,558,405
Thumb Correctional Facility - Lapeer	18,670,300	(128,200)	120,856	55,496	18,718,452
Western Wayne Correctional Facility - Plymouth	19,479,100	863,600	46,689	68,389	20,457,778
Corrections Camps	<u>52,621,700</u>	<u>1,825,000</u>	<u>230,496</u>	<u>486,381</u>	<u>55,163,578</u>
Subtotal for Facility Operations	<u>\$ 843,502,900</u>	<u>\$ 18,695,200</u>	<u>\$ 5,122,085</u>	<u>\$ 5,649,874</u>	<u>\$ 872,970,059</u>
Intrafund Expenditure Reimbursements	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ (2,541,074)</u>	<u>\$ (2,541,074)</u>
Total	<u>\$1,330,269,400</u>	<u>\$ 0</u>	<u>\$19,675,913</u>	<u>\$ 35,978,738</u>	<u>\$1,385,924,050</u>

Disposition of Authorizations						
Expenditures and Operating Transfers Out	Multi-Year Projects	Encumbrances	Restricted Revenue - Not Authorized	Balances Lapsed	Overexpended	Total
\$ 22,359,434	\$	\$ 160,360	\$	\$ 94,500	\$	\$ 22,614,294
21,688,724		1,846		215,603		21,906,173
21,712,549		300,499		178,967		22,192,015
19,527,064		13,010		384,217		19,924,292
20,019,940		-		37,619		20,057,559
3,275,122		140,669		142,614		3,558,405
18,285,336		259,383		173,734		18,718,452
19,711,264		25,195		721,320		20,457,778
<u>54,314,808</u>		<u>243,498</u>		<u>605,272</u>		<u>55,163,578</u>
<u>\$ 855,805,246</u>	<u>\$ 0</u>	<u>\$ 9,459,244</u>	<u>\$ 0</u>	<u>\$ 7,708,529</u>	<u>\$ (2,960)</u>	<u>\$ 872,970,059</u>
<u>\$ (2,541,074)</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ (2,541,074)</u>
<u>\$ 1,304,113,749</u>	<u>\$ 45,899,214</u>	<u>\$ 18,035,139</u>	<u>\$ 2,866,306</u>	<u>\$ 15,017,602</u>	<u>\$ (7,960)</u>	<u>\$ 1,385,924,050</u>

**DEPARTMENT OF CORRECTIONS**  
Schedule of Expenditures of Federal Awards (1)  
For the Period October 1, 1997 through September 30, 1999

For the Fiscal Year Ended September 30, 1998					
Federal Agency/Program	CFDA (2) Program Number	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
<b><u>Financial Assistance</u></b>					
<b><u>U.S. Department of Agriculture</u></b>					
Pass-Through Programs					
Michigan Department of Education					
Child Nutrition Cluster					
School Breakfast Program	10.553	330008008	\$ 182,967	\$	\$ 182,967
National School Lunch Program	10.555	330008008	313,223		313,223
Total Child Nutrition Cluster			<u>\$ 496,190</u>	<u>\$ 0</u>	<u>\$ 496,190</u>
<b>Total U.S. Department of Agriculture</b>			<b><u>\$ 496,190</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 496,190</u></b>
<b><u>U.S. Department of Justice</u></b>					
Direct Programs					
Violent Offender Incarceration and Truth in					
Sentencing Incentive Grants					
	16.586		\$	\$ 82,800	\$ 82,800
State Criminal Alien Assistance Program	16.606		1,900,000		1,900,000
Total Direct Programs			<u>\$ 1,900,000</u>	<u>\$ 82,800</u>	<u>\$ 1,982,800</u>
Pass-Through Programs					
Department of Community Health					
Byrne Formula Grant Program					
	16.579	70672-3K97	\$ 381,948	\$	\$ 381,948
Residential Substance Abuse Treatment for State Prisoners	16.593	90001-1S96	405,543		405,543
Total Pass-Through Programs			<u>\$ 787,491</u>	<u>\$ 0</u>	<u>\$ 787,491</u>
<b>Total U.S. Department of Justice</b>			<b><u>\$ 2,687,491</u></b>	<b><u>\$ 82,800</u></b>	<b><u>\$ 2,770,291</u></b>
<b><u>Institute of Museum and Library Services</u></b>					
Pass-Through Program					
Library of Michigan					
State Library Program	45.310		\$	\$	\$ 0
<b>Total Institute of Museum and Library Services</b>			<b><u>\$ 0</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 0</u></b>
<b><u>U.S. Department of Education</u></b>					
Pass-Through Programs					
Michigan Department of Education					
Adult Education - State Grant Program					
	84.002		\$	\$	\$ 0
Adult Education - State Grant Program	84.002	1198/98137	857,653		857,653
Adult Education - State Grant Program	84.002	1197/98137	129,600		129,600
Adult Education - State Grant Program	84.002	1197/97090	412,578		412,578
Adult Education - State Grant Program	84.002	1157/970119	1,025		1,025
Total Adult Education - State Grant Program			<u>\$ 1,400,856</u>	<u>\$ 0</u>	<u>\$ 1,400,856</u>
Title I Program for Neglected and Delinquent Children					
	84.013		\$	\$	\$ 0
Title I Program for Neglected and Delinquent Children	84.013				0
Title I Program for Neglected and Delinquent Children	84.013	1667/8493	62,172		62,172
Title I Program for Neglected and Delinquent Children	84.013	1668/8493	243,047		243,047
Title I Program for Neglected and Delinquent Children	84.013	1667/7493	11,386		11,386
Total Title I Program for Neglected and Delinquent Children			<u>\$ 316,605</u>	<u>\$ 0</u>	<u>\$ 316,605</u>

*This schedule continued on next page.*

For the Fiscal Year Ended September 30, 1999				
Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
330008008	\$ 285,040	\$	\$ 285,040	\$ 468,007
330008008	<u>465,959</u>		<u>465,959</u>	<u>779,182</u>
	<u>\$ 750,999</u>	<u>\$ 0</u>	<u>\$ 750,999</u>	<u>\$ 1,247,189</u>
	<u>\$ 750,999</u>	<u>\$ 0</u>	<u>\$ 750,999</u>	<u>\$ 1,247,189</u>
	\$ 2,210,095	\$ 7,876,341	\$ 10,086,436	\$ 10,169,236
	<u>7,472,358</u>		<u>7,472,358</u>	<u>9,372,358</u>
	<u>\$ 9,682,453</u>	<u>\$ 7,876,341</u>	<u>\$ 17,558,794</u>	<u>\$ 19,541,594</u>
70672-4K98	\$ 360,569	\$	\$ 360,569	\$ 742,517
90001-2S97	<u>1,631,623</u>		<u>1,631,623</u>	<u>2,037,166</u>
	<u>\$ 1,992,192</u>	<u>\$ 0</u>	<u>\$ 1,992,192</u>	<u>\$ 2,779,683</u>
	<u>\$ 11,674,645</u>	<u>\$ 7,876,341</u>	<u>\$ 19,550,986</u>	<u>\$ 22,321,277</u>
98-409	\$ 23,672	\$	\$ 23,672	\$ 23,672
	<u>\$ 23,672</u>	<u>\$ 0</u>	<u>\$ 23,672</u>	<u>\$ 23,672</u>
1199/99076	\$ 900,000	\$	\$ 900,000	\$ 900,000
1198/98137	3,735		3,735	861,388
				129,600
				412,578
				<u>1,025</u>
	<u>\$ 903,735</u>	<u>\$ 0</u>	<u>\$ 903,735</u>	<u>\$ 2,304,591</u>
1668/9493	\$ 71,123	\$	\$ 71,123	\$ 71,123
1669/9493	244,661		244,661	244,661
				62,172
				243,047
				<u>11,386</u>
	<u>\$ 315,784</u>	<u>\$ 0</u>	<u>\$ 315,784</u>	<u>\$ 632,389</u>

**DEPARTMENT OF CORRECTIONS**  
Schedule of Expenditures of Federal Awards (1)  
For the Period October 1, 1997 through September 30, 1999  
*Continued*

<u>For the Fiscal Year Ended September 30, 1998</u>					
<u>Federal Agency/Program</u>	<u>CFDA (2) Program Number</u>	<u>Pass-Through Identification Number</u>	<u>Directly Expended</u>	<u>Distributed to Subrecipients</u>	<u>Total Expended and Distributed</u>
Special Education - Grants to States	84.027		\$	\$	\$
Special Education - Grants to States	84.027				
Special Education - Grants to States	84.027	0498-61	<u>52,729</u>		<u>52,729</u>
Total Special Education - Grants to States			<u>\$ 52,729</u>	<u>\$ 0</u>	<u>\$ 52,729</u>
Vocational Education - Basic Grants to States	84.048	8601	\$ 232,945	\$	\$ 232,945
Vocational Education - Basic Grants to States	84.048				
Vocational Education - Basic Grants to States	84.048	6601	<u>6,689</u>		<u>6,689</u>
Total Vocational Education - Basic Grants to States			<u>\$ 239,634</u>	<u>\$ 0</u>	<u>\$ 239,634</u>
<b>Total U.S. Department of Education</b>			<b><u>\$ 2,009,824</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 2,009,824</u></b>
<b><u>U.S. Department of Health and Human Services</u></b>					
Pass-Through Programs					
Department of Community Health					
HIV Care Formula Grants	93.917		\$ 56,503	\$	\$ 56,503
Block Grants for the Prevention and Treatment of Substance Abuse	93.959		<u>563,000</u>		<u>563,000</u>
<b>Total U.S. Department of Health and Human Services</b>			<b><u>\$ 619,503</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 619,503</u></b>
Total Financial Assistance			<u>\$ 5,813,008</u>	<u>\$ 82,800</u>	<u>\$ 5,895,808</u>
<b><u>Nonfinancial Assistance</u></b>					
<b><u>U.S. Department of Agriculture</u></b>					
Food Distribution (Food Donation Program) (3)	10.550		<u>\$ 424,054</u>	<u>\$</u>	<u>\$ 424,054</u>
<b>Total U.S. Department of Agriculture</b>			<b><u>\$ 424,054</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 424,054</u></b>
Total Nonfinancial Assistance			<u>\$ 424,054</u>	<u>\$</u>	<u>\$ 424,054</u>
Total Expenditures of Federal Awards			<u>\$ 6,237,062</u>	<u>\$ 82,800</u>	<u>\$ 6,319,862</u>

(1) Basis of Presentation: This schedule includes the federal grant activity of the Department of Corrections and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial schedules.

(2) CFDA is defined as *Catalog of Federal Domestic Assistance*

(3) The "Directly Expended" amount reflects the value assigned by the federal government to food commodities used by the Department of Corrections during the fiscal year.

For the Fiscal Year Ended September 30, 1999				
Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	Total Expended and Distributed for the Two-Year Period
0499/61CB	\$ 5,000	\$	\$ 5,000	\$ 5,000
0449/61	58,910		58,910	58,910
			0	52,729
	<u>\$ 63,910</u>	<u>\$ 0</u>	<u>\$ 63,910</u>	<u>\$ 116,639</u>
8601	\$ 3,423	\$	\$ 3,423	\$ 236,368
4271	146,397		146,397	146,397
			0	6,689
	<u>\$ 149,820</u>	<u>\$ 0</u>	<u>\$ 149,820</u>	<u>\$ 389,454</u>
	<u><b>\$ 1,433,249</b></u>	<u><b>\$ 0</b></u>	<u><b>\$ 1,433,249</b></u>	<u><b>\$ 3,443,073</b></u>
	\$ 73,364	\$	\$ 73,364	\$ 129,867
	<u>563,000</u>		<u>563,000</u>	<u>1,126,000</u>
	<u><b>\$ 636,364</b></u>	<u><b>\$ 0</b></u>	<u><b>\$ 636,364</b></u>	<u><b>\$ 1,255,867</b></u>
	<u>\$ 14,518,929</u>	<u>\$ 7,876,341</u>	<u>\$ 22,395,270</u>	<u>\$ 28,291,078</u>
	<u>\$ 153,255</u>	<u>\$</u>	<u>\$ 153,255</u>	<u>\$ 577,309</u>
	<u><b>\$ 153,255</b></u>	<u><b>\$ 0</b></u>	<u><b>\$ 153,255</b></u>	<u><b>\$ 577,309</b></u>
	<u>\$ 153,255</u>	<u>\$ 0</u>	<u>\$ 153,255</u>	<u>\$ 577,309</u>
	<u><b>\$ 14,672,184</b></u>	<u><b>\$ 7,876,341</b></u>	<u><b>\$ 22,548,525</b></u>	<u><b>\$ 28,868,387</b></u>

## OTHER REQUIRED SCHEDULES

DEPARTMENT OF CORRECTIONS  
Summary Schedule of Prior Audit Findings  
As of September 30, 1999

**PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES**

Audit Findings That Have Been Fully Corrected:

**Audit Period:** October 1, 1995 through September 30, 1997  
**Finding Number:** 2  
**Finding:** DOC did not properly classify and present revenue within its financial schedules.  
**Comments:** All revenue profiles were changed in accordance with the audit recommendation.

Audit Findings Not Corrected or Partially Corrected:

**Audit Period:** October 1, 1995 through September 30, 1997  
**Finding Number:** 3  
**Finding:** DOC's internal control structure did not provide for the proper classification of federal program expenditures.  
**Comments:** When DOC was informed of this internal control weakness in July 1998, all individuals were trained in the proper use of object codes. For fiscal year 1998-99, only two transactions were found to be improperly coded. Also, in fiscal year 1999-2000, queries will be run in the Management Information Database (MIDB) to verify that object codes correspond to the commodity code.

**PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS**

Audit Findings That Have Been Fully Corrected:

**Audit Period:** October 1, 1995 through September 30, 1997  
**Finding Number:** 1



**Finding:** DOC did not accurately report federal grant information in its schedule of federal financial assistance.

**Comments:** MIDB queries have been developed on a fiscal year basis to determine expenditures. These expenditures are reconciled to balances in the Michigan Administrative Information Network (MAIN). Program titles have been verified with program managers and grantors.

Audit Findings Not Corrected or Partially Corrected:

**Audit Period:** October 1, 1995 through September 30, 1997

**Finding Number:** 4

**Finding:** DOC did not submit required federal financial and program activity reports in compliance with applicable federal law and grant award requirements for 5 of 7 major federal assistance programs.

**Comments:** The preparation of the financial reports for the Byrne Formula Grant Program and the Residential Substance Abuse Treatment for State Prisoners Program has been reassigned to another area. We have stressed to the individuals responsible for the preparation of the other financial reports the importance of timely completion. Employees preparing reports have been instructed to inform their supervisors of the date of completion of all reports. Supervisors have been assigned the responsibility for the timely preparation of reports.

**Audit Period:** October 1, 1995 through September 30, 1997

**Finding Number:** 5

**Finding:** DOC did not comply with the Common Rule when administering the Adult Education - State Grant Program and the Title I Program.

**Comments:** When DOC was informed of this internal control weakness in July 1998, all individuals were trained in the proper use of object codes. For fiscal year 1998-99, only two transactions were found to be improperly coded. Also, in fiscal year 1999-2000, queries will be run in MIDB to verify that object codes correspond to the commodity code.

## DEPARTMENT OF CORRECTIONS

Corrective Action Plan

As of October 17, 2000

### **FINDINGS RELATED TO THE FINANCIAL SCHEDULES**

**Finding Number:** 470001  
**Finding Title:** Encumbrances  
**Management Views:** We disagree with item a., which states that we are not in compliance with Department of Management and Budget (DMB) encumbrance criteria for encumbering miscellaneous operating projects. We are following DMB instructions/guidelines when encumbering these projects as noted in the auditors' finding. We agree with item b. and have taken steps to comply.  
**Corrective Action:** Regarding item b., we have instructed the program area that did not have the contract signed by September 16 to adhere to encumbrance criteria.  
**Anticipated Completion Date:** a. None.  
b. Completed September 30, 2000  
**Responsible Individual:** Mike Draschil, Manager, Finance Division

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**Finding Number:** 470002  
**Finding Title:** Expenditure Classification

See Finding 470003 with the findings related to federal awards.

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### **FINDINGS RELATED TO FEDERAL AWARDS**

**Finding Number:** 470003  
**Finding Title:** Expenditure Classification  
**Management Views:** We agree and have taken steps to comply.  
**Corrective Action:** All staff have been trained in the classification of object codes for expenditure transactions and journal vouchers.

Also, queries are now being run in the Management Information Database (MIDB) to verify the accuracy of coding.

**Anticipated Completion Date:** September 30, 2000

**Responsible Individual:** Mike Draschil, Manager, Finance Division

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**Finding Number:** 470004

**Finding Title:** Adult Education - State Grant Program Budget and Federal Awards

**Management Views:** We agree and have complied.

**Corrective Action:** Revised categorical budgets have been submitted to the Michigan Department of Education. MIDB queries have been developed to properly report expenditures.

**Anticipated Completion Date:** Completed September 30, 2000

**Responsible Individual:** Diane Spence, Manager, Education Section  
Mike Draschil, Manager, Finance Division

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**Finding Number:** 470005

**Finding Title:** Federal Payroll Costs

**Management Views:** We agree and have complied.

**Corrective Action:** Effective March 1999, personal activity reports are being prepared. Title I semiannual certifications are being prepared.

**Anticipated Completion Date:** Completed September 30, 2000

**Responsible Individual:** Diane Spence, Manager, Education Section

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**Finding Number:** 470006

**Finding Title:** Child Nutrition Cluster

**Management Views:** We agree and have complied. We were not aware of the requirement to report individual federal programs within a cluster of programs.

**Corrective Action:** A separate program cost account has been established to record the School Breakfast Program (SBP) and the National School Lunch Program (NSLP) in the Michigan Administrative Information Network (MAIN).

**Anticipated Completion Date:** Completed September 30, 2000  
**Responsible Individual:** Mike Draschil, Manager, Finance Division

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**Finding Number:** 470007  
**Finding Title:** Federal Reporting  
**Management Views:** We agree and have taken steps to comply.  
**Corrective Action:** The responsibility to prepare some of these reports has been assigned to another program area. We have again stressed to all program areas that there must be compliance with federal reporting requirements.

**Anticipated Completion Date:** Completed September 30, 2000  
**Responsible Individual:** Mike Draschil, Manager, Finance Division  
Cheryl Walker, Substance Abuse Programs

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**Finding Number:** 470008  
**Finding Title:** Meal Counts  
**Management Views:** We agree and will comply.  
**Corrective Action:** We will write a procedure to ensure that there is uniformity between institutions and accuracy in meal counts prior to the submission of the monthly reimbursement claims. Also included in this procedure will be a quarterly audit performed by facility staff of one week's roster to verify the accuracy of the meal count. This procedure will also require a yearly audit by Central Office staff of one month's rosters to verify the accuracy of the meal count.

**Anticipated Completion Date:** February 2001  
**Responsible Individual:** Gatha McClellan, Manager, Food Services Unit

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**Finding Number:** 470009  
**Finding Title:** Subrecipient Monitoring  
**Management Views:** We agree and will comply.  
**Corrective Action:** A contract has been prepared and forwarded to the subrecipient (the Department of Management and Budget [DMB]) for signature. We will perform an audit of DMB's processes and procedures for awarding

construction contracts and its internal control over the vendor payment process to ensure that funds are expended in compliance with applicable laws, regulations, and provisions of the grants and contracts.

**Anticipated Completion Date:** June 30, 2001

**Responsible Individual:** Mike Draschil, Manager, Finance Division

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## Glossary of Acronyms and Terms

<i>CFDA</i>	<i>Catalog of Federal Domestic Assistance.</i>
<i>CFR</i>	<i>Code of Federal Regulations.</i>
cluster of programs	A grouping of closely related federal programs that share common compliance requirements.
Common Rule	Title 34, Part 80 of the <i>Code of Federal Regulations</i> .
DMB	Department of Management and Budget.
DOC	Department of Corrections.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules of an audited entity are fairly presented in conformity with generally accepted accounting principles.
HIV	human immunodeficiency virus.
internal control	A process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations.
low-risk auditee	As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an annual Single Audit and if it meets other criteria related to prior audit results. In accordance with State statute, this Single Audit was conducted on a biennial basis;

consequently, this auditee is not considered a low-risk auditee.

**material weakness**

A condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that either misstatements in amounts that would be material in relation to the financial schedules being audited or noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

**Michigan  
Administrative  
Information Network  
(MAIN)**

A fully integrated automated financial management system for the State of Michigan.

**MIDB**

Management Information Database.

**miscellaneous  
operating projects**

Services for the acquisition, construction, improvement, or demolition of facilities.

**mission**

The agency's main purpose or the reason the agency was established.

**NSLP**

National School Lunch Program.

**OMB**

U.S. Office of Management and Budget.

**qualified opinion**

An auditor's opinion in which the auditor identifies a scope limitation or one or more instances of misstatements that impact the fair presentation of the financial schedules in conformity with generally accepted accounting principles or an auditor's opinion in which the auditor expresses

reservations about the audited agency's compliance, in all material respects, with the cited requirements that are applicable to each major federal program.

questioned costs

Costs tentatively identified as unallowable, undocumented, unapproved, or unreasonable. These costs are subject to disallowance by the federal government.

reportable condition

A matter coming to the auditor's attention relating to a significant deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect DOC's ability to: (1) record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules or (2) administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants.

SBP

School Breakfast Program.

SEFA

schedule of expenditures of federal awards.

Single Audit

A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, a Single Audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.



<i>SOMCAFR</i>	<i>State of Michigan Comprehensive Annual Financial Report.</i>
subrecipient	A nonfederal entity that receives federal awards through another nonfederal entity to carry out a federal program.
Title I Program	Title I Program for Neglected and Delinquent Children.
unqualified opinion	An auditor's opinion in which the auditor states, without reservation, that the financial schedules are fairly presented in conformity with generally accepted accounting principles or an auditor's opinion in which the auditor states, without reservation, that the audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.
VOI-TIS	Violent Offender Incarceration and Truth in Sentencing Incentive Grants.